

**FOR IMMEDIATE RELEASE**

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**MORGAN'S FOODS ANNOUNCES THIRD QUARTER FISCAL 2003 RESULTS**

Beachwood, Ohio (December 23, 2002) -- Morgan's Foods, Inc. (AMEX:MR) ([www.morgansfoods.com](http://www.morgansfoods.com)) today announced financial results for the third quarter of its 2003 fiscal year. For the quarter ended November 10, 2002, the Company reported revenues of \$19,617,000, compared to revenues of \$20,418,000 for the quarter ended November 4, 2001. Revenues for the thirty-six weeks ended November 10, 2002 were \$59,124,000 compared to \$58,964,000 for the comparable year earlier period.

The revenue decrease in the quarter was primarily the result of a comparable restaurant revenue decrease of 4.6% caused by ineffective product promotions by our franchisors during the quarter. The revenue increase for the thirty-six weeks ended November 10, 2002 was primarily due to the image enhancement of two locations and the addition of the A&W concept to a KFC restaurant.

Operating income for the fiscal 2003 third quarter decreased to \$843,000 from \$1,709,000 in fiscal 2002. Operating income for the thirty-six weeks ended November 10, 2002 was \$3,327,000 compared to \$4,402,000 in the year earlier period. These decreases were primarily the result of higher food cost product promotions, increased workers compensation and employee medical expenses, increased insurance costs, increased employee placement costs and higher labor rates which were partially offset by the implementation of FASB 142 whereby goodwill is no longer amortized. The net loss in the third quarter of fiscal 2003 was \$(284,000) or \$(.10) per share compared to a net income of \$552,000 or \$.20 per share in the third quarter of fiscal 2002. For the thirty-six weeks ended November 10, 2002 net income was \$6,000 or breakeven per share compared to net income of \$922,000 or \$.32 per share for the thirty-six weeks ended November 4, 2001.

The current year third quarter results contain \$1,136,000 of interest expense and \$811,000 of depreciation and amortization expense compared to \$1,157,000 and \$893,000 respectively in the prior year period. For the thirty-six weeks ended November 10, 2002, the Company made \$1,544,000 in principal payments on debt compared to \$1,536,000 in the prior year and reported operating cash flow of \$1,800,000 during the first thirty-six weeks of fiscal 2003 compared to \$3,388,000 during the prior year.

Morgan's Foods, Inc. operates 75 KFC restaurants, 7 Taco Bell restaurants, 16 KFC/Taco Bell "2n1" restaurants, 3 Taco Bell/Pizza Hut Express "2n1's", 1 KFC/Pizza Hut Express "2n1" and 1 KFC/A&W "2n1" in six states.

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Table Attached.

MORGAN'S FOODS, INC.  
SELECTED FINANCIAL INFORMATION

	Quarter Ended		Thirty-Six Weeks Ended	
	November 10, 2002	November 4, 2001	November 10, 2002	November 4, 2001
Revenues	\$19,617,000	\$20,418,000	\$59,124,000	\$58,964,000
Cost of sales:				
Food, paper and beverage	6,245,000	6,134,000	18,432,000	17,982,000
Labor and benefits	5,190,000	5,107,000	15,811,000	15,162,000
Restaurant operating expenses	5,055,000	5,284,000	14,946,000	15,122,000
Depreciation and amortization	811,000	893,000	2,361,000	2,667,000
General and administrative expenses	1,348,000	1,210,000	4,054,000	3,517,000
Loss on restaurant assets	<u>125,000</u>	<u>81,000</u>	<u>193,000</u>	<u>112,000</u>
Operating income	843,000	1,709,000	3,327,000	4,402,000
Interest expense:				
Bank debt and notes payable	(1,136,000)	(1,157,000)	(3,391,000)	(3,526,000)
Capital leases	(14,000)	(16,000)	(42,000)	(49,000)
Other income and expense, net	<u>24,000</u>	<u>25,000</u>	<u>118,000</u>	<u>105,000</u>
Income (loss) before income taxes	(283,000)	561,000	12,000	932,000
Provision for income taxes	<u>1,000</u>	<u>9,000</u>	<u>6,000</u>	<u>10,000</u>
Net income (loss)	<u>\$ (284,000)</u>	<u>\$ 552,000</u>	<u>\$ 6,000</u>	<u>\$ 922,000</u>
Basic and diluted net income (loss) per common share:	\$ (.10)	\$ .20	\$ -	\$ .32
Basic weighted average number of shares outstanding	2,718,441	2,795,524	2,720,926	2,882,442
Diluted weighted average number of shares outstanding	2,718,441	2,797,635	2,731,158	2,883,776
		November 10, 2002	March 3, 2002	
ASSETS				
Current assets		\$ 7,132,000	\$ 8,494,000	
Property and equipment, net		37,693,000	38,148,000	
Other assets		<u>13,393,000</u>	<u>13,611,000</u>	
Total assets		<u>\$58,218,000</u>	<u>\$60,253,000</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current liabilities		\$ 9,561,000	\$ 9,806,000	
Long-term debt		46,806,000	48,563,000	
Long-term capital lease obligations		463,000	544,000	
Other long-term liabilities		1,612,000	1,537,000	
Shareholders' equity (deficiency)		<u>(224,000)</u>	<u>(197,000)</u>	
Total liabilities and shareholders' equity (deficiency)		<u>\$58,218,000</u>	<u>\$60,253,000</u>	